UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/CP/TON/5
8 March 1990

ORIGINAL: ENGLISH

Thirty-seventh session
28 May-22 June 1990, Geneva
Item 5 (b) (v) of the
provisional agenda

PROGRAMME PLANNING

Country, intercountry and global programmes

FIFTH COUNTRY PROGRAMME FOR TONGA*

Programme period	Actual resources programmed	$
1991-1995	IPF for 1991 (one fifth of current fourth cycle IPF)	317 150
	IPF for 1992-1995 (estimated from four fifths of current fourth cycle IPF)	1 268 600
	Other resources programmed	-
	Total	1 585 750

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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; and (d) distribution of new country programme by sector.

I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. The Kingdom of Tonga consists of 171 islands, which are divided into three main groupings - Tongatapu, Ha'apai and Vava'u - and extend over an area of approximately 750 square kilometres. The census of 1986 put the country's population at 94,747.

2. The economy is dominated by the agriculture, fisheries and forestry sectors, which account for 40 per cent of gross domestic product (GDP), absorb 50 per cent of the labour force, and produce the bulk of exports.

3. A downturn in the growth of agriculture in fiscal year 1987/1988 (1 July to 30 June) because of a severe drought in late 1987 caused a negative real growth in GDP of some 2 per cent. Economic performance improved in 1988/1989, however, and positive growth is estimated at around 3.5 per cent.

4. The outlook for 1989/1990 and the next two years promises further growth in view of good prospects for agricultural exports to Japan. For example, squash is developing into a major export. Other sectors are also being encouraged through Government investment, particularly in infrastructure to support tourism development and manufacturing activities.

B. National development strategies

5. The Fifth Five-Year Development Plan for the Kingdom of Tonga (1986-1990) emphasized promotion of the productive sectors of the economy, upgrading of the infrastructure necessary to support these sectors and the need to promote regional and rural development of civil aviation infrastructure. The Plan maintained the nation's long-term objectives of: (a) sustained growth in the production of goods and services and real incomes of the people; (b) improved management of the economy and distribution of goods and services; (c) enhanced quality of life and protection of the environment; and (d) harmonious relations with other nations.

C. Technical co-operation priorities

6. For the fifth country programme, technical co-operation will be concentrated on priority development objectives and areas indicated in the Government budget statement for fiscal year 1989/1990 and in the Fifth Development Plan (1986-1990).

7. The Government has decided to place increasing emphasis on: (a) income-generating activities, particularly in the productive sectors and tourism; (b) a more rapid rate of economic growth through improved efficiency in the use of resources (whether from external sources or locally generated); and (c) employment-creating activities together with better working conditions, particularly to attract unemployed youth. In this connection agriculture, industry and tourism have been identified as important areas for technical assistance.

8. Another priority area of Government where technical assistance will be needed is the export sector, which offers opportunities for further growth in foreign exchange earnings. Attention will be given to more export-oriented industries and to a revival of traditional primary exports. Institution-building projects aiming at effective channelling of trade information to public and private enterprises will also receive consideration.

9. Regional development is now receiving greater emphasis as a result of the formation of regional committees chaired at the ministerial level. Technical co-operation in this area is expected to assist the Government in building up and maintaining its efforts in developing the various regions of the country.

10. All technical co-operation projects will give priority to training of nationals so as to raise the technical know-how and skilled manpower of the country. All forms of training will be considered, and the most appropriate combination used.

D. Aid co-ordination arrangements

11. External economic development assistance constitutes an important element of the country's development financing. The total development aid flow to Tonga for fiscal year 1988 amounted to $US 15.7 million. Of this amount, the bilateral donors contributed 81 per cent, the United Nations agencies 8 per cent, and other non-United Nations multilaterals contributed the remaining 11 per cent. UNDP development planning assistance has, however, played a key role in assisting Government co-ordination efforts.

12. Tonga is a member of the Africa, Caribbean and the Pacific Group (ACP). Under the Lomé Convention, it receives substantial funds from the European Economic Community (EEC) for development assistance. In addition, Tonga is a member of several regional institutions, namely, the Forum Secretariat, the South Pacific Commission (SPC), the University of the South Pacific (USP), the Tourism Council of the South Pacific (TCSP), the Forum Fisheries Agency (FFA) and the Committee for Co-ordination of Joint Prospecting for Mineral Resources in South Pacific Off-Shore Areas (CCOP/SOPAC). The range and level of assistance which Tonga receives from these regional institutions varies and encompasses all major sectors of the economy.

13. The Development Co-ordination Committee (DCC) co-ordinates most of the aid resources available to the Kingdom. Two other committees are also involved in aid co-ordination, namely, the Vava'u Committee and the Ha'apai Committee, which focus their efforts on the Vava'u group and the Ha'apai group, respectively. These two committees were set up by the Government recently in the light of the priority given to developing the outlying areas. Aid flows to development projects in these two regions are co-ordinated by their respective committee, whereas DCC co-ordinates the aid flow to the rest of the country.

14. The projects that are submitted to these committees are subsequently forwarded to the Cabinet and the Privy Council. The Central Planning Department, which works closely with all three committees, has since 1978 benefited from United Nations Development Programme (UNDP) projects.

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15. UNDP assistance is being requested for the scheduling of a round-table meeting in November 1990, which will reinforce the objectives of the fifth country programme through improving donor co-ordination and planning and targeting of key sectors.

II. THE COUNTRY PROGRAMME

A. Assessment of the current country programme

16. The fourth country programme was based on Tonga's priorities as articulated in the Government's mid-term review of its Fourth Development Plan (1980-1985). The Government attached high priority to primary economic activities such as agriculture and fisheries and the continued expansion of the private sector, particularly the development of industrial enterprises. Also emphasized were regional developments focusing on island groups having lower than average income per capita and potential for further development. In addition, the development of infrastructure for health services, as well as for transport and communications, was identified as a priority, especially in the rural areas.

17. The fourth country programme made an important contribution to the development of Tonga. At the mid-term review (MTR) of the programme, undertaken in June 1989, it was agreed that the limited indicative planning figure (IPF) resources had been judiciously allocated and good use of the regional IPF funds had been made to augment and complement the national IPF. Along with more than 20 other regional projects covering the Pacific, the following projects have been extensively utilized to further the objectives of the fourth country programme: Livestock Development (RAS/86/039), executed by the Food and Agriculture Organization of the United Nations (FAO), assisted small farmers and industries in the planning of appropriate production systems; Small- and Medium-Scale Industries and Entrepreneurship Development (RAS/86/075), executed by the United Nations Industrial Development Organization (UNIDO), conducted in-service training and organized study tours for small-scale entrepreneurs and also provided backstopping to the national project Small Industries Promotion and Entrepreneurial Development (TON/86/002) executed by UNIDO; and Telecommunications Development and Planning (RAS/86/119), executed by the International Telecommunication Union (ITU), assisted the Government-executed project Telecommunications Adviser (TON/86/001), implemented within the Tonga Telecommunications Commission, by providing consultancy and expert services.

18. There were no major changes in Government priorities during the fourth country programme and hence the programme remained relevant and well directed to the country's needs.

B. New programme proposal

19. Given the limited resources available to Tonga under the fifth country programme, five objectives have been selected for concentration of effort. It is expected that greater benefits will be achieved from this approach rather than spreading the limited IPF resources thinly in an attempt to cover the needs of many sectors of the economy.

20. The objectives of the new country programme remain similar to those of the fourth country programme and are in line with the objectives and priorities of the current National Development Plan. However, they are particularly focused on technical assistance to promote income-generating activities.

21. The objectives of the new country programme are to: (a) assist the Government in the development of the productive sectors, especially agriculture, industry and tourism; (b) investigate appropriate measures which favour exports; (c) assist in the setting up of a mechanism to mobilize domestic finance; (d) meet the short-term specialist manpower needs of the Kingdom; and (e) strengthen the development planning process in order to facilitate project formulation and implementation.

22. Training of Tongan nationals in all of the above areas will be emphasized by the Government as a means of achieving self-sustaining development.

To accelerate growth in production, employment and income, particularly in the following sectors: tourism, agriculture and manufacturing

23. In terms of gross receipts, tourism is Tonga's largest earner of foreign exchange. In 1988, tourism earnings amounted to about P12 million ($US 9.2 million), which was P3.5 million ($US 2.7 million) more than merchandise export earnings. Employment in the tourism sector over the period 1980-1985 increased by 500 persons, surpassing the target increase of 260 persons. This was achieved with small-scale investments in the sector. If larger scale investment were to be undertaken, the sector could rapidly become one of the major sources of employment.

24. The issues to be addressed in order to foster the growth of tourism include the lack of infrastructure and facilities of international standards, particularly with regard to high quality accommodation; an inadequate number of direct flights from potential major tourist markets (e.g. Australia), and the irregular schedules of the domestic air services; inadequate marketing of Tonga in potential markets; lack of an articulated tourism policy; and shortcomings in the standard and supply of qualified personnel.

25. The Government has attempted to improve supporting infrastructure such as airports, roads and markets while encouraging the private sector to invest in hotels and resort facilities through an investment incentive package.

26. During the fifth country programme, UNDP will assist the Tongan Visitors' Bureau in putting together an articulated tourism policy to ensure a faster rate of growth for the sector. The pipeline project Tourism Planner (TON/89/007), which is expected to commence during the fourth country programme, will carry over into the fifth programme and is expected to lead to other United Nations technical assistance projects in this sector.

27. Growth in the agriculture sector over the past three years shows wide fluctuations. From fiscal year 1985/1986 to 1986/1987, agriculture achieved a 3.6 per cent growth and in the following fiscal year, 1987/1988, growth was negative at -10 per cent. In the latest fiscal year, 1988/1989, it appears that production recovered slightly over the previous year and a 2 per cent increase, as

compared with the previous year, was achieved. The dominance of the agricultural sector in the national economy with its negative growth rate in 1987-1988 was the main reason for a 2 per cent negative growth rate for the GDP in that year.

28. The potential contribution of the agricultural sector is unmatched by any other sector in the economy. A comprehensive review of the agricultural sector was proposed in the Government's recent budget policy statement. After this review, technical assistance may be required to follow up some of the recommendations. Though there are many issues confronting the growth of the sector, efforts are expected to be focused on productivity, quality, and quarantine measures. The latter two issues aim at satisfying and maintaining market shares overseas. Problems related to these issues have been adversely affecting export crops such as bananas, coconuts, watermelon, vanilla, etc. It is intended through UNDP/FAO technical assistance to help farmers to appreciate that high quality produce is required by overseas consumers.

29. Recognizing the importance of coconut - the country's major crop, a UNDP/FAO specialist in coconut breeding under the Coconut Replanting project (TON/89/006) will assist in the provision of genetically improved plant material of Tongan origin. He will also make recommendations regarding methods of coconut farming which, together with improved plant breeding, is expected to lead to an increase in export-oriented coconut products. This project will continue in the fifth country programme.

30. The manufacturing sector, although small, is one of the fastest growing sectors in Tonga. From 1985-1986 to 1986-1987 a growth rate of 3.3 per cent was achieved and in 1987-1988 it rose to around 5 per cent. Foreign exchange earnings for the sector have also been growing strongly. Overall employment in manufacturing grew at an average annual rate of 8 per cent between 1983 and 1988. The World Bank estimates that the sector accounts for roughly 10 per cent of all paid employment and has the potential to increase by 15-20 per cent a year.

31. Constraints facing the sector include shortages of local entrepreneurship and skilled manpower, geographical isolation, the small domestic market, lack of market and investment promotion activities, inadequate financial resources and the limited range of financial schemes and institutions. Favourable factors include the incentives package, supporting infrastructure such as the Small Industries Centre in Nuku'alofa, political stability and the Government's commitment to industrial growth and diversification.

32. Since the Second National Development Plan of 1970-1975, the Government has attempted to create a favourable investment climate in the industrial sector through an incentive scheme. During the latter part of the Third Development Plan 1975-1980 a small industrial centre was established. These policies have led to significant growth in the sector.

33. The ongoing project with the Ministry of Labour, Commerce and Industries - Small Industries Promotion and Entrepreneurial Development (TON/86/002, executed by UNIDO, will be continued in the fifth country programme to strengthen the efforts of the Industrial Promotion Unit to provide training and information to local

entrepreneurs and provide job opportunities for women. Further technical assistance may be required to review the industrial incentives scheme with a view to remedying certain shortcomings, namely, the reservation of certain industries for Tongan nationals and equity sharing between Tongans and foreign shareholders. Short-term technical assistance may also be required to undertake a comprehensive investigation of the financial needs of the sector.

34. Where appropriate, in working towards the objective of ascertaining growth in tourism, manufacturing and agriculture, environmental considerations will be fully canvassed. In developing these sectors efforts will be made to improve environmental awareness in Tonga.

Export promotion

35. Exports over the three years 1985-1986 to 1987-1988 were equivalent, on average, to only 14 per cent of imports. Large foreign trade deficits characterize the balance of payments. The surplus on services and transfers customarily exceeds the trade deficit, however, so that the external account is in surplus. Tongan exports are dominated primarily by products which account for about 67 per cent of the total and include coconut products, bananas, vanilla and fish. Industrial products, including knitwear and other labour-intensive goods, account for the other 33 per cent.

36. The setting up of the Small Industries Centre has proved to be one of the most successful interventions by the Government in promoting industrial growth. Since the Centre was opened in 1979 there has always been an unsatisfied demand for space there. The Centre has made a substantial contribution to production, employment and incomes. A second industrial centre for Tongatapu and another at Vava'u are also to be built. Based on the success of this scheme the Government will investigate the feasibility of setting up an export processing zone (EPZ). Technical assistance may be required from UNDP to assist the Government in this respect.

37. Co-ordination of the activities of institutions which are directly or indirectly involved in exports, namely, the Tonga Commodities Board, the Friendly Island Marketing Co-operative (FIMCO), the Ministry of Agriculture, the Ministry of Labour, Commerce and Industry, and private individuals, has been insufficient. Technical assistance will be required to investigate appropriate measures to co-ordinate the activities of the institutions which have a major impact on exports. Provision of trade information to the private sector has also been inadequate. The Government may request assistance to set up a trade information system for the private sector.

Mobilization of domestic finance

38. The Annual Development Budget relies mainly on foreign aid to finance development projects. The contribution from the Government to the Development Budget is small. During the preparation of the recent budget, many development proposals from ministries and departments were cut because of limited financial resources.

39. Besides Government taxation and some limited issue of bonds, the Bank of Tonga provides the only means of tapping the savings of Tongans for investment purposes. The only other financial institutions of significance are the Tonga Development Bank and the Central Bank.

40. One of the ways of mobilizing domestic finance is by setting up a national pension fund scheme. The setting up of such a fund has been a long-standing project that goes back to the Third Development Plan (1975-1980). The success of Fiji's National Provident Fund in mobilizing local resources is a good example for Tonga to investigate as a possible model. Technical assistance will be required during the fifth country programme in order to further investigate and implement a national pension fund for Tonga.

Technical manpower needs

41. There is still a shortage of skilled, technical and management manpower in both the public and the private sector. The Government has recently set up a Community Development and Training Centre which will address the shortage of skilled people. The Tongan Government has also devoted major parts of the annual bilateral allocations from Australia and New Zealand for scholarships overseas. This programme is bearing fruit with many graduates returning to Tonga to fill various management positions. Also, more doctors and other technicians are becoming available to various public services. These programmes will, however, take time to meet the demand from various sectors. The Government will therefore set aside a portion of the fifth country programme to meet the short-term specialist manpower needs of some sectors. As part of this strategy, the ongoing project Health Manpower (TON/85/005), executed by the World Health Organization (WHO), will be continued.

42. Manpower is the resource which is most likely to secure Tonga's longer term development prospects. It is a lack of skills, not a shortage of labour, which is impeding efficiency, productivity and economic growth. The Government may require a manpower planner for the Central Planning Department to assist in the preparation of a manpower development plan. Furthermore, in order to prevent the drain of such people overseas, measures to improve the terms and conditions of employment will be investigated and implemented.

Raising the efficiency of development planning

43. The basic organizational and administrative framework for development and planning in the Kingdom of Tonga centres around the Central Planning Department and the Development Co-ordination Committee (DCC), which makes recommendations regarding policy on development and planning to the Cabinet.

44. The task of project formulation, identification and implementation is usually done by individual sectoral ministries or departments with assistance from CPD sector economists. With regard to macro-economic issues and policies, and also overall co-ordination of development activities, the Central Planning Department is responsible for reporting on these to DCC and subsequently to the Cabinet.

45. Shortages of qualified and experienced staff in certain line ministries, and to some extent in the Central Planning Department, weaken the development planning process. The line ministries may need experienced and qualified planners during the fifth country programme. Recently the Government has given greater attention to developing the various regions of the country, hence the need for a regional planner. The Central Planning Department, which is responsible for overall co-ordination of development planning, is in the process of recruiting a macro-economic adviser and a regional planner from UNDP through project TON/89/011 (Strengthening of Development Planning and Implementation). This project will be continued into the fifth country programme.

C. Unprogrammed reserve

46. To meet unforeseen requirements during the course of the fifth country programme, an unprogrammed reserve of $US 50,000 has been set aside for such circumstances.

Annex

FINANCIAL SUMMARY

I.	ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		
	A. UNDP-administered sources	$	$
	Fourth cycle IPF balance (1991)	317 150	
	Fifth cycle IPF (1992-1995)	1 268 600	
	Subtotal IPF		1 585 750
	Special Measures Fund for Least Developed Countries	-	
	Special programme resources	-	
	Government cost-sharing	-	
	Third-party cost-sharing	-	
	Operational funds under the authority of the Administrator	-	
	UNDP special trust funds	-	
	Subtotal, UNDP non-IPF funds		-
	B. Other sources		
	Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
	Parallel financing from non-United Nations sources	-	
	Subtotal, other sources		-
	TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		1 585 750
II.	USE OF RESOURCES		
	Ongoing projects	642 500	
	New project proposals	-	
	Allocation by objectives	893 250	
	Subtotal, programmed resources		1 535 750
	Unprogrammed reserve		50 000
	TOTAL USE OF RESOURCES		1 585 750